

Item:

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Report to Partnership Meeting –4th February 2011

PARTNERSHIP

Risk Management

PURPOSE OF REPORT

To seek agreement of the Board for the implementation of a more formal Risk Management approach by the Partnership and by so doing ensure significant risks are identified, evaluated and controlled.

BACKGROUND

HITRANS financial position requires stringent management and at times difficult decisions over resource priorities. It is important, therefore, that the maximum amount of resources is channelled into achieving HITRANS' objectives.

There are, however, risks to us achieving these objectives. Risks are inevitable and, in practice, cannot be avoided. Risks, therefore, have to be managed, understood and controlled if we are to meet our objectives.

The management of risk is not a new concept to HITRANS as risks are currently managed throughout the organisation, either consciously or sub-consciously. However, there is a need for a common corporate framework to facilitate a consistent and logical approach, which should lead to better decision-making and better use of resources.

We are also obliged, under the process of corporate governance, to account for our actions. To achieve compliance with best practice we need to ensure that we have a robust system of risk management in place.

Consequently, HITRANS needs to be pro-active and prepared in the way we manage our risk portfolio. Incorporating a more formal approach to risk management in our day to day operations will enable us to deliver our responsibilities and work towards achieving our objectives. In fact, management of risks is key to ensuring that we fulfil our objectives.

To support our development of sound management of risk a Draft Risk Management Strategy has been prepared describing the constituent parts of good Risk Management, our overriding Risk Management Aims, the range of risks we face, the processes we propose to put in place, and the actions we propose to take to implement the Strategy should this meet with the Boards agreement. This Document is included in an Appendix to this Report.

HITRANS Officers and Partnership Advisors have discussed how effective risk management should be formalised within HITRANS monitoring and reporting systems and it was agreed that a paper based Risk Register covering major strategic, corporate and financial risks should be developed. Preliminary work on developing this Risk Register approach, based on the Draft Risk Management Strategy described in the Report, has been undertaken and key risks, associated controls and actions are being identified to minimise the impact on the activities of the Partnership. Upon approval by the Board of the Risk Management Strategy further work will be undertaken in this area and a report on the implementation of the Strategy brought to the Board in April.

In addition, from April 2011 it is proposed, as part of our more formal risk management approach to highlight any Policy, Financial, Strategy Delivery, or Legal risks associated with implementing the recommendations of any report to the Board as a footnote to each Item.

RECOMMENDATIONS

Members are asked to:

1. Approve adoption by HITRANS of the Risk Management Strategy as included in the Appendix to this Report,
2. Agree to the development of a HITRANS Risk Register to support good management of the strategic risks faced by HITRANS,
3. Instruct the Partnership Director to present the Register to the Board on at least an annual basis for monitoring and approval,
4. Instruct officers from April 2011 to include with each Report placed before the Board details of any related Policy, Financial, Strategy Delivery, or Legal risks associated with implementing the recommendations.

Report by: Dave Duthie
Designation: Partnership Director
Date: 24th January 2011



RISK MANAGEMENT STRATEGY (DRAFT)

Jan 2011

EXECUTIVE SUMMARY

Highlands and Islands Transport Partnership (HITRANS) financial position requires stringent management and at times difficult decisions over resource priorities. It is important, therefore, that the maximum amount of resources is channelled into achieving HITRANS' objectives.

There are, however, risks to us achieving these objectives. Risks are inevitable and, in practice, cannot be avoided. Risks, therefore, have to be managed, understood and controlled if we are to meet our objectives.

The management of risk is not a new concept to HITRANS as risks are currently managed throughout the organisation, either consciously or sub-consciously. However, there is a need for a common corporate framework to facilitate a consistent and logical approach, which should lead to better decision-making and better use of resources.

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Consequently, HITRANS needs to be pro-active and prepared in the way we manage our risk portfolio. Incorporating a more formal approach to risk management in our day to day operations will enable us to deliver our responsibilities and work towards achieving our objectives. In fact, management of risks is fundamental to ensuring that we fulfil our objectives.

1. INTRODUCTION

This document forms HITRANS risk management strategy. It sets out:

- What is meant by risk management;
- The benefits and constituent parts of good risk management;
- How Risk Management interacts with the objectives of the Partnership
- The range of risks facing HITRANS
- What needs to be done to implement the strategy and how this will be monitored
- The roles and responsibilities of various key individuals and groups in relation to risk management;

The strategy states the aims and objectives of HITRANS regarding the management of its risks in the short to medium term.

2 THE AIM OF RISK MANAGEMENT

Risk is the threat that an event or action will adversely affect an organisation's ability to achieve its objectives and to successfully execute its strategies. Risk management is the process by which significant risks are identified, evaluated and controlled. In the HITRANS context it has critical links to the following areas: -

- Corporate governance
- structures and processes
- standards of conduct
- service delivery arrangements
- effective use of resources

Risk Management

Risk management is about making the most of opportunities (making the right decisions) and about achieving objectives once those decisions are made. This is achieved through transferring risks, controlling risks, and living with risk. Risk management is not just about insurance - not least because 80% of risks faced by organisations are not insurable. Certainly risk transfer is part of risk management, but so is risk retention and control.

3 THE BENEFITS OF GOOD RISK MANAGEMENT

Good risk management supports the achievements of our corporate and operational objectives and has a crucial role to play in ensuring that HITRANS is well run.

The key benefits of a systematic approach to risk management are:

- Providing supporting tools and techniques to identify and appraise risk;
- The ability to communicate and share risk;
- The ability to take on more risk where appropriate and control this better;
- A better understanding of risks;
- Endeavour to reduce/ minimise risk;

We need to manage risk in order to help ensure that we can achieve our goals and meet our priority challenges

Risk management will positively influence the way we allocate resources in trying to achieve our goals

4 THE CONSTITUENT PARTS OF GOOD RISK MANAGEMENT

Risk management is an integral part of good governance and is a process whereby:

There is shared awareness and understanding within HITRANS of:

- a) The nature and extent of the risks it faces;
 - b) The extent and categories of risks regarded as acceptable;
 - c) The likelihood and potential impacts of the risk materialising;
 - d) Our ability to reduce the incidence of impact on the organisation of risks that do materialise.
- There is regular and ongoing monitoring and reporting of risk including early warning mechanisms.
 - An appropriate assessment is made of the cost of operating particular controls relative to the benefit obtained in managing the related risk.
 - HITRANS will look to ongoing review the effectiveness of the systems of internal control in place.
 - HITRANS reports publicly on the results of review's and explains the action that it is taking to address any

significant concerns that it has identified.

- Quantification of risk

The process should be ongoing, embedded in our culture and have the potential to reorientate us around performance and improvement. It is not about eliminating risk but about understanding risk and managing it more effectively, thereby enhancing performance.

5. OVERRIDING RISK MANAGEMENT AIM

HITRANS goal in Risk Management is that risk should only be accepted where it is in the furtherance of goals. All major activities undertaken by HITRANS should be examined to ensure that the risks that are part of the activities have been examined and evaluated, and that the appropriate action has been taken to mitigate these wherever possible.

6. THE RANGE OF RISKS FACING HITRANS

The range of risks facing HITRANS can be categorised into strategic and operational. These are listed below:-

Strategic Risks

These are risks that are associated with the development of our key objectives, and will include:-

- **Political:** changes in political control or significant policy changes at a national or local level
- **Economic:** changes in the economic climate leading to, for example, lower employment levels - and hence lower public travel demand - and lower profitability for bus companies.
- **Social:** unanticipated effects of changes in demographic, residential or social trends.
- **Technology:** unanticipated technological change might render significant investments obsolete or undermine key assumptions (e.g. the environmental sustainability of fossil fuelled car travel)
- **Legislative:** legislative change at UK or European level could place significant new obligations on transport networks or render particular practices illegal.
- **Environmental:** unexpected adverse environmental impacts leading to a need for a change in the nature of transport in the region.
- **Best Value:** inability to achieve continuous improvement in all of our activities.

Operational Risks

These are risks that are faced in the day to day activities of HITRANS, and will include:-

- **Professional:** risks associated with the professional competence of our officers
- **Financial:** inadequate financial planning resulting in lack of funding
- **Legal:** breaches of legislation

- Physical:** fire hazards, lack of security, loss of utilities, premises.
- Contractual:** failure of our contractors to deliver services to the Partnership at an agreed cost and quality specification and programme
- Technological:** uncontrolled over-reliance on IT and other operational equipment.
- Reputational:** the organisation's reputation and public perception including its efficiency and effectiveness
- Partnership:** risks that projects or activities will not be delivered effectively to cost or on time because of the complexity of partnership working or failure of a partner in some aspects of delivery.
- People Management:** The withdrawal of labour as a consequence of poor employee relations, out of date working practices and a lack of effective communication where change management is concerned. Also the inability to recruit and retain calibre staff required to ensure delivery of services

The above categories represent a brief outline of the major elements of risk facing HITRANS. It is important to review the above risks and their potential impact on each other as well as trying to alleviate the individual categories of risk.

7 THE RISK MANAGEMENT PROCESS

There are a number of critical steps in the process of identifying and managing risk within HITRANS activities. These are as follows:

Step 1 Identifying risks

Step 2 Analysing risks

Step 3 Profiling risks

Step 4 Prioritising action based on the approach to risk

Step 5 Determining action on risk

Step 6 Controlling risk

Step 7 Monitoring and reporting on progress

8 THE KEY ELEMENTS OF THE RISK MANAGEMENT FRAMEWORK

It is vital that everybody understands the role that they play in effective risk management.

Each officer of HITRANS together with Members of the HITRANS Board is responsible for ensuring effective risk management.

9. ACTION REQUIRED TO IMPLEMENT THIS STRATEGY

- The identification of risks

- The assessment of risks
- Integration into the business planning process
- Challenge and review of the process
- Reporting

Report by: Dave Duthie
Designation: Partnership Director
Date: 24th January 2011